

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6055

BILL NUMBER: HB 1348

NOTE PREPARED: Nov 6, 2002

BILL AMENDED:

SUBJECT: Judge Pro Tempore Service Credit Purchase.

FIRST AUTHOR: Rep. Kromkowski

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill allows a judge to purchase service credit for service as a full-time judge *pro tempore*. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2003.

Explanation of State Expenditures: This bill can result in increased future payouts from the Judges' Retirement System in certain situations, as described below.

The bill allows a judge to purchase service credit for service as a full-time judge *pro tempore*. Contributions must be equal to the product of the following: (1) the member's salary at the time the member actually makes a contribution for the service credit; and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the Judges' Retirement System may wish to purchase service credit and the potential impact to the funds are identified below.

(1) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current Judges' Retirement System service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments (COLAs) that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the Judges' Retirement System. There also would be no immediate real gain to

the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the Judges' Retirement System.

(2) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service was based on the member's salary **at the time of purchase** before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund as administrators of the Judges' Retirement System.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for the Judges' Retirement System, 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITION

Actuarial Funding Method: Any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide pension benefits.